Healthcare

OVERWEIGHT

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1QCY25 Report Card: A Slight Improvement

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The recently concluded 1QCY25 results reporting season saw slight improvement in earnings delivery (against our expectations) by the sector. Generally, private hospitals registered a mixed bag of results. IHH (OP; TP: RM8.11) was driven by stable demand in their operations across the board due to sustained demand, case-mix of more acute patients, and better yields. However, KPJ missed expectations on lower-than-expected margins. Meanwhile, health supplement and pharmaceutical players reported a good set of results. DPHARMA came in above expectation due to better-than-expected contribution from supply of medical equipment to the public hospitals. NOVA shows marked improvement. However, KOTRA's earnings were hit by lower sales. We believe private healthcare operators are less affected by the recently announced 6% sales tax imposition. Reiterate OVERWEIGHT. Our Top pick for the sector is IHH (OP; TP: RM8.11) and we add DPHARMA (OP; TP: RM1.72) as to sector pick. We have a non-consensus UP on KPJ (UP; TP: RM2.50).

A mixed bag of results. This quarter marked a sequential improvement in earnings delivery against our expectations with 20%40%/40% coming in above/within/below our forecasts compared to 50%/50% within/below in the preceding quarter (see table on Page 2). **DPHARMA (OP; TP: RM1.72)** came in above expectation due to higher contribution from volumes sales to public hospitals. In private healthcare, **IHH (OP; TP: RM8.11)** was driven by stable demand in their operations across the board due to sustained demand, case-mix of more acute patients, and better yields. However, **KPJ (UP; TP: RM2.50)** missed expectations on lower-than-expected margins. Meanwhile, health supplement and pharmaceutical players reported mixed set results. However, **NOVA (OP; TP: RM0.41)** came in within expectation but **KOTRA (OP; TP: RM5.10)** disappointed.

- **Private Hospitals**

The Ministry of Finance (MOF) via its press release gave details on sales tax revision including an imposition of 6% sales tax on private healthcare operators which applies only to non-citizens; all Malaysians remain exempt, including for traditional and allied health services. We believe private healthcare operators would be less affected by the recently announced 6% sales tax imposition. At present, both IHH (Malaysian operations) and KPJ have manageable medical tourism revenue of around 5%-7%, as a proxy to service tax on foreign citizens.

A good set of 1QFY25 for IHH but KPJ disappointed. Generally, private healthcare players recorded mixed results in 1QCY25. For IHH, its 1QFY25 core net profit rose 5% YoY driven by revenue intensity and better yields. On the other hand, KPJ registered 1QFY25 results that missed expectations due to lower margins despite net profit growing 11% YoY which only accounted for 15% and 16% of our and consensus full-year forecasts.

Overall, **IHH's** FY24 results met expectations with core net profit rising 35% YoY driven by revenue intensity, better yields and lower tax. IHH expects its earnings momentum to accelerate, underpinned by revenue intensity and rising demand in 4QCY24. This would be supported by higher yield services both in Singapore, return of medical tourists in Acibadem, and post-election effect in India.

Separately, **KPJ's** 1QFY25 core net profit missed expectations. We understand that losses in 1QFY25 at its new hospitals have narrowed by RM5m-RM6m compared to 1QFY24. Recall, that losses in FY24 at its new hospitals have narrowed by RM40m-RM50m to an estimated pre-tax loss of RM90m to RM99m. To recap, key operating indicators was mixed in 1QFY25 vs. 1QFY24. Specifically, key matrix showing improvement were average revenue per inpatient (+10%), outpatient throughput (+2%), surgeries (+3%) and operational beds (+6%). However, it was lower including bed occupancy rate (-3 ppts) and inpatients (-1%). It highlighted that presently, none of the 30 hospitals have been de-panelled by insurance companies and it will continue to maintain strong partnerships across its insurance panel. This is following concerns that private hospitals in Malaysia are facing increasing pressure from insurers to offer discounts on patient bills, and this is leading to concerns about the potential impact on patient safety and treatment quality. As with any commercial arrangement, it remains vigilant and proactive to manage any potential risks going forward.

IHH's revenue intensity will continue to improve driven by higher patient throughput, both from domestic and international markets. We expect IHH's earnings momentum to accelerate, underpinned by revenue intensity and rising demand in FY25. Geographically, this would be supported by higher yield services both in Singapore and Malaysia, return of medical tourists in Türkiye, Hong Kong potentially turning profitable by end-CY25, and yield improvement in India. We continue to like **IHH** for: (i) its pricing power as the inelastic demand for healthcare provides it with the ability to pass cost through amidst rising inflation, (ii) the strong recovery in patient throughput, from both domestic and international markets, and (iii) its commanding market position in

the private healthcare space with presence in Malaysia, Singapore, Türkiye and Greater China. Reiterate OUTPERFORM.

KPJ guided for narrower losses in hospitals under gestation, although the quantum of improvement appears smaller. It is optimistic for earnings to gain momentum moving into 2HFY25 supported by better operational efficiencies stemming from ongoing cost optimisation efforts. In terms of PER valuation, KPJ is trading at 36x and 31x on FY25F and FY26F earnings compared with Bumrumgrad Hospital and Bangkok Dusit at FY26F PER of 17x and 20x, respectively. Notably Bumrumgrad Hospital and Bangkok Dusit's have consensus FY25F EBITDA margins of 38% and 24%, respectively, which is higher than KPJ's. However, the fundamentals have been priced-in after the recent run-up in its share price (YTD: +11%), as investors gravitate towards secular growth businesses amid a more risk-off environment. It is optimistic of a total 4,400 beds (+13% YoY) by end-CY25. Beyond CY25, it will add 800 beds bringing total beds to 5,200 over the next five years, largely via brownfield expansion which we have already factored into our forecasts. In terms of bottom-line profitability, we expect earnings to gain momentum moving into FY25 on better operational efficiencies from its cost optimisation effort and overhead absorption rate as a result of a gradual ramp-up in opening new beds (+13%). However, the opening of KPJ Kuala Selangor (60-bed) slated to commence operation by mid-April CY25 is expected to incur start-up costs. Typically, new hospitals go through a gestation period of 3-5 years. With incremental revenue from higher patient throughput, Damansara Specialist Hospital 2 (DSH2), KPJ Perlis, KPJ Batu Pahat and KPJ Bandar Dato Onn have already turned EBITDA-positive in FY24 except for Miri which we expect to achieve the same in CY25. With a guided capex of RM300m-RM400m in FY25, the group is looking at M&A opportunities for future growth including looking at acquiring yield accretive hospitals or assets which are complimentary to its core business for future growth. Separately, in an effort to differentiate itself from other hospitals, KPJ has identified five areas of sub-specialities establishing them within its existing hospitals, in the discipline of heart and lung, neurology and stroke, oncology, orthopaedics as well as robotics for advanced surgery which is expected to raise revenue intensity due to its acute case of complex cases.

- **Health Supplements, Ethical and OTC Drugs**

DPHARMA's (OP; TP: RM1.72)1QFY25 came in above expectations due to better-than-expected volume sales to government hospitals. Looking into 2HFY25, we expect contribution from strong orders via the Ministry of Health's Approved Product Purchase List (APPL). DPHARMA is optimistic that public sector contribution is expected to accelerate in the FY25. It has guided 2QFY25 public sector sales to account for 55%-60% of top line and expect higher private sector's contribution compared to 47%-50%, historically. Typically, APPL contract will draw down its value proportionately over the course of contract period. For illustration purposes, technically, the contract value of RM684m is estimated to have unbilled outstanding order book of RM450m as at end 1QCY25.

KOTRA's 9MFY25 margin shows marked improvement on sales of higher margin products though its earnings missed our expectation. QoQ, 2QFY25 earnings grew 13% QoQ, and we remain upbeat on KOTRA backed by recovering consumer spending, drawing encouragement from sales momentum.

Independent market researcher The Statista Consumer Market Outlook projects the OTC pharmaceuticals market in Malaysia to grow at a CAGR of 6% to an estimated USD715m (RM3.2b) by 2027 as consumers take a more proactive stance towards their health and well-being (including taking health supplements regularly), especially in the aftermath of the Covid-19 pandemic.

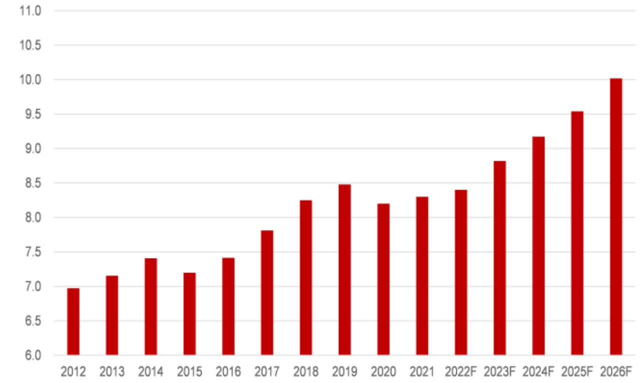
The trend augurs well for **KOTRA (OP; TP: RM4.90)** which manufactures and sells OTC supplements and nutritional and pharmaceutical products under key flagship household brands such as *Appeton, Axcel* and *Vaxcel*. We also like **KOTRA** for: (i) its integrated business model encompassing the entire spectrum of the pharmaceutical value chain from R&D, product conceptualisation to manufacturing and sales, and (ii) the superior margins of its original brand manufacturing (OBM) business model (vs. low-margin contract manufacturing). Meanwhile, **NOVA (OP; TP: RM0.41)**'s slow ramp-up of production at its new plant will likely drag topline contribution and hit margins due to worse-than-expected economies of scale. We continue to like NOVA for its: (i) integrated business model which encompasses the entire spectrum of pharmaceutical value chain from product conceptualization, R&D to manufacturing and sales, (ii) superior margins due to its original business manufacturing (OBM) business model, and (iii) earnings growth driven by capacity expansion, a widening distribution network and penetration into local public hospitals.

Quarterly Results Performance

	1QCY25						4QCY24					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
DPHARMA	1			1								
IHH		1			1			1				1
KPJ			1			1		1			1	
NOVA		1							1			
KOTRA			1						1			
Total	**1**	**2**	**2**	**1**	**1**	**1**	**0**	**2**	**2**	**0**	**1**	**1**
Total (%)	**20**	**40**	**40**	**33**	**50**	**50**	**0**	**50**	**50**	**0**	**50**	**50**

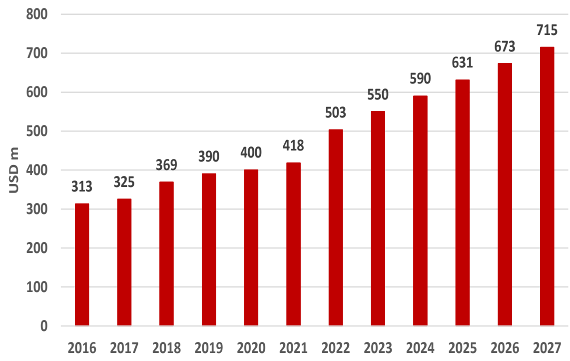
Source: Kenanga Research, companies quarterly results, ^Consensus estimate is unavailable.

Global Healthcare Expenditure (USDt)



Source: Kenanga Research, WHO, various

OTC Pharmaceuticals Market in Malaysia



Source: Kenanga Research, various

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
DUOPHARMA BIOTECH BERHAD	OP	1.38	1.72	24.6%	1,327.5	Y	12/2025	9.9	11.5	51.8%	15.9%	14.0	12.0	1.7	12.8%	3.3	2.4%
IHH HEALTHCARE BHD	OP	6.86	8.11	18.2%	60,541.7	Y	12/2025	21.6	24.3	12.6%	12.2%	31.7	28.3	1.9	6.2%	10.0	1.5%
KOTRA INDUSTRIES BHD	OP	4.18	4.90	17.2%	620.0	Y	06/2025	30.4	32.7	0.9%	7.6%	13.7	12.8	1.9	15.1%	25.5	6.1%
KPJ HEALTHCARE BHD	UP	2.81	2.50	-11.0%	12,263.7	Y	12/2025	7.6	8.8	8.5%	15.7%	36.8	31.8	4.6	13.0%	4.2	1.5%
NOVA WELLNESS GROUP BHD	OP	0.330	0.410	24.2%	105.2	Y	06/2025	2.7	2.8	8.9%	3.5%	12.2	11.8	0.9	7.7%	1.3	3.9%

Source: Company, Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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